WORLD ECONOMIC AND SOCIAL SURVEY *1994*

Executive Summary

United Nations
Department for Economic and Social Information and Policy Analysis

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I

Outlook for the world economy

The short-term outlook for the world economy has improved significantly. The world economy appears set to grow by up to 2½ per cent in 1994 and by some 3 per cent in 1995. This will be the most rapid rate of global expansion this decade, but will still be weaker than the average for the 1970s and 1980s. In 1994, world output per capita is expected to rise for the first time since 1989 (table I.1).

In the developed market economies, growth is forecast to improve from 1 per cent in 1993 to over 2 per cent in 1994. The strength of the economy of the United States of America remains the greatest source of optimism about the short-term growth prospects of these economies. Japan and western Europe are expected to emerge from recession in 1994 but only slowly, with growth in the range of 1 to 2 per cent.

In the economies in transition in eastern Europe, output is expected to increase by just over 2 per cent in 1994 and 3 per cent in 1995. The outlook for the Russian Federation and the other countries of the former Soviet Union is generally more dim, with output expected to fall again in 1994 in several cases.

In the developing countries, the strong growth of recent years is expected to be maintained. Output in these countries as a whole is forecast to increase by over 5 per cent in both 1994 and 1995. Once again, the economies of South and East Asia are expected to remain buoyant, with growth accelerating to over 6 per cent in 1994. Growth in China is expected to decelerate but still remain at around 10 per cent. In Latin America, growth is likely to decelerate to under 3 per cent, while in Africa the growth of output is expected once again to lag behind the growth of population.

The outlook beyond 1995 is more conjectural. Nevertheless, success in fiscal consolidation and financial adjustment in the developed market economies, progress in the economies in transition, and economic reform and growing internal dynamism in a large number of developing countries, all reinforced by the beneficial effects of the Uruguay Round, point to the possibility of a further acceleration of growth in the world economy in the second half of the 1990s.

While the prospects for the world economy clearly turned for the better in early 1994, there can be little room for complacency. The improvement in growth in the developed market economies is inadequate for a significant reduction of unemployment and the recovery has to be accompanied by adequate monetary policies. In the economies in transition, changes are acquiring socio-political dynamics of their own. Where the commitment to reform

Table I.1.
Growth of the world economy, 1988-1995
(Annual percentage change)

	1988	1989	1990	1991	1992	1993	1994	1995
World output	4.5	3.2	1.6	0.3	0.8	1.1	2½	3
Developed market economies	4.5	3.3	2.4	0.7	1.6	1.0	2¼	2¾
Economies in transition	4.5	2.1	-6.2	-8.8	-15.2	-8.6	-6	0
Developing countries	4.5	3.5	3.0	3.4	4.9	5.2	5	5
World trade	7.3	8.0	5.6	4.6	5.5	2.7	6	6½
Memo item:								
Growth of world per capita income	2.8	1.5	0	-1.4	-0.9	-0.6	0.6	1.3

Source: UN/DESIPA. Figures for 1994 and 1995 are forecasts based on Project LINK.

is firm and clear, however, external support must continue to be made available and increased. In most countries of Africa, there is no realistic alternative to sustained reform; at the same time, success in reform will require commensurate external support. Above all, ways must be found to alleviate the political instability and violence prevailing in several countries in order to enable meaningful economic development to take place.

Unemployment is high and growing in many countries around the world. Solutions to this problem must remain high on the policy agenda. While an improvement in growth is essential for job creation, in many cases the problem is complex and some of the measures required are specific to the situation of a given country. Political considerations play an important role in many cases.

The conclusion of the Uruguay Round was a landmark in international cooperation. The ratification of the agreements reached and their speedy implementation must remain at the top of the international agenda. The growing chorus of concern over increased import competition from developing countries must be resisted and fair rules of the game as reflected in the Uruguay Round agreements should constitute the basis for further progress in international trade.

II

Recent developments and policies

In 1993, the rate of growth of world output accelerated slightly, but the situation remained a mosaic of sharp contrasts between countries and regions. A lower rate of growth in the developed market economy countries was offset by a slight acceleration in the developing countries and a lower rate of decline in the countries with economies in transition.

RECESSION AND RECOVERY IN THE DEVELOPED MARKET ECONOMIES

Growth in the developed market economies, which account for over 70 per cent of world output, slowed to only about 1 per cent in 1993—more than one third less than the rate in the previous year. Recovery in some countries was partly offset by recession in others. By the fourth quarter of the year, however, growth was strengthening.

The growth of output accelerated in 1993 in Australia, Canada, New Zealand, the United Kingdom and the United States, the economies that passed first from earlier recessions into the recovery phase of their business cycles. At the same time, real GDP fell in continental western Europe and output was virtually unchanged in Japan.

Unemployment increased sharply in almost all these countries and remained a central policy concern. At the same time, unemployment problems were considered to lie largely beyond solution by macroeconomic policy alone. Owing to output increases, unemployment rates began to decline in Australia, Canada, the United Kingdom, and the United States. Despite a projected pick-up in economic activity, hirings have remained weak and unemployment rates continued to rise in continental western Europe and Japan. Amid sluggish growth and high unemployment, inflation stayed low. Indeed, in 1993, for the group as a whole, consumer prices rose by 2.8 per cent, almost half the inflation rate of 1990.

The key macroeconomic policy objective in these countries has been to steer the economies onto a sustainable growth path, while moving inflation, unemployment and budget deficits to within acceptable limits. In many cases, 1993 was characterized by an increase in the budget deficit. Only the Government of Japan found room for additional fiscal stimulus; the remainder maintained fiscal austerity. The same concerns about the sustainability of policy actions explained the actions of the monetary authorities. In Japan, monetary policy remained quite loose as all the monetary easing since 1991 had done little more than slow the overall sharp contraction in private expenditure. At the same time, in the United States, in response to faster growth and rising inflationary expectations, the Federal Reserve began to move towards a more restrictive stance in early 1994. In Europe, the monetary authorities considered only small and tentative steps towards easing in 1993, continuing into early 1994. It seems, however, that the benefit in terms of higher output and employment that might have been gained through a more rapid reduction of European interest rates in 1993 would have been small, especially set against the extra inflation that might have resulted. Given the need to sustain the confidence of the private sector in the long run prospects for economic growth with low inflation, policy makers seemed to be waiting for the cumulative effects of the slow, cautious sequence of policy measures to build.

TRANSITION ECONOMIES AT A TURNING POINT

In the group of economies in transition, output is estimated to have declined by some 9 per cent in 1993. This is less sharply than in 1992 but, as then, individual country experience and progress in the transition continues to vary widely. A number of these economies might be at a turning point.

The euphoria that accompanied the start of transition from command to market economies in Europe and central Asia has been succeeded by signs of disillusionment at the widespread impoverishment, unemployment, the loss of personal security and concern about the future. Also, a rapid differentiation of incomes and wealth is bringing a new stratification to societies that were relatively egalitarian. Much has been achieved, however, in making the institutional changes required for market economies to operate. Indeed, some countries have seen considerable advances in the share of output and employment contributed by the private sector.

Nevertheless, by early 1994, growth had returned only in Poland. There were signs of a resumption of growth in

several other economies, while in most of the remainder contraction was slowing. Stabilization has been a main focus of policy in many countries, while in others the bulk of macroeconomic adjustment still lies ahead.

The Russian Federation is often viewed as a barometer for these countries as a group. In that country, the "revolutionary" phase in the economic transformation to a market model is essentially over, and the unresolved policy debates focus on the shape of the new model and the modalities and speed of transition to it. While aggregate output has continued to fall and inflation remains high, the pace of divestment of State-owned enterprises has been rapid. The State cannot afford, however, to abandon all inefficient enterprises it owns and needs to continue temporary financial support. First, too many enterprises are at stake, and the political and social costs of mass bankruptcy would be unacceptable. Moreover, the country would be suddenly deprived of essential production and services. Second, in the absence of fully operational market mechanisms and appropriate prices, it is hard at this time to assess which firms are viable. Third, neither the legal system nor the financial sector yet function adequately. But even if there is no alternative to continued State financing to keep industry operational during the current stage of transition, the amount of financial support and the principles for its allocation are matters the policy makers must still decide.

DEVELOPING COUNTRIES: STRONGER GROWTH

In the developing countries, output increased by 5 per cent overall in 1993, fractionally higher than in the previous year. This growth was shared by large populations. Yet a large number of countries, mainly in Africa, failed to grow, or continued to suffer a decline in per capita output.

As it was during the 1980s and the early 1990s, high growth was concentrated in South and East Asia and in China, which achieved in 1993 rates of growth of 5.4 per cent and 13 per cent, respectively. However, Latin America and the Caribbean, with a 3.3 per cent growth in 1993, also saw a marked improvement compared to the previous two years and the average of the 1980s. In Africa, 1.6 per cent growth in 1993 was an improvement over drought-stricken 1992, but meant a continued decline in per capita income. In West Asia, growth slowed down to 3.5 per cent, after the sharp recovery in 1992 from the devastation of the Gulf war. In the Mediterranean countries as a group, economic decline continued in 1993 as a result of loss of output caused by the war in the republics of former Yugoslavia.

In the 1990s developing countries in the aggregate have been growing much faster than the developed market economies. The main factors that contributed to such growth, despite recession in the major markets of the developing countries, are: large domestic markets in some of the fastest growing countries, as China; increase in trade among developing countries, especially in Asia, but also in Latin America; strong investment in infrastructure, in particular in the successful exporters of manufactures in Asia; high participation of Asian developing countries in the exports that suffered relatively less in the present economic downturn, such as electronic machinery and equipment; international interest rates that have been lower than in the 1980s and a high net inflow of private capital into several developing countries.

III

International trade

The volume of world exports is estimated to have increased by about 2.7 per cent in 1993, a sharp slowdown from its 5 per cent rate of increase the previous year. As has been the case in the past few years, the growth of global trade increasingly reflected the growth of trade of developing countries—especially those in Asia where output has been growing strongly. Among the developed countries, the strongest growth source was the United States, with its imports growing by almost 13 per cent in 1993. By contrast, in western Europe, imports declined by some 4.5 per cent.

Foremost among policy developments here was the completion of the Uruguay Round of multilateral trade negotiations after seven years of deliberation. Another landmark development was passage of the North American Free Trade Agreement (NAFTA), the first regional scheme of this scope to encompass developed and developing economies. A number of other regional schemes continued to gain in scope.

Commodity price movements are of particular importance to the global economy with primary commodities accounting for almost one quarter of the $3.5 trillion world trade and just under half of developing country exports. The most significant development in this area was a substantial fall in oil prices. For the year as a whole, the average price in 1993 was about 11 per cent lower than in 1992. Moreover, non-fuel commodity prices continued to weaken in 1993. For the year as a whole, average dollar prices fell by some 3.5 per cent from the previous year's level, which represented the fourth consecutive annual drop in prices. In real terms, prices declined by about 1.4 per cent. The average decline, though modest, nevertheless pushed real prices of a number of non-fuel commodities to their lowest levels in 30 years.

Despite the tremendous impetus to trade liberalization inherent in the passage of the Uruguay Round, bones of contention continue to proliferate. Included here are unilateral attempts to open foreign markets. Moreover, a number of "sensitive" trade areas also generated a great deal of tension in 1993, such as steel, automobiles and automobile parts, semiconductors and telecommunications, as well as textiles and clothing.

Formation of regional trading blocs reached a landmark with the signing, on 17 November 1993, of NAFTA. Other integration movements are under way in Latin America. At the same time, the European Union (EU) continues to deepen, as well as widen, while the successor States of the former Soviet Union seek means of reintegrating their economies. The Asia-Pacific Economic Cooperation Forum (APEC) continues to view itself as a counterpoint to the increased regionalism in the rest of the world, while some progress towards integration is also being made in Africa.

From the perspective of the future of the global trading system, the most significant development of the past year was the successful conclusion of the Uruguay Round, by far the most ambitious of the trade rounds, with the widest participation. Important areas, such as textiles and agriculture—which had previously remained outside the purview of the General Agreement on Tariffs and Trade (GATT)—were brought under GATT discipline, and negotiations were extended to services and intellectual property, as well as trade-related investment. The dispute settlement procedures were strengthened, safeguard and anti-dumping measures were made more transparent, and less subject to arbitrary action, and a new trade body, the World Trade Organization (WTO), is to be set up. While some of the results will take years to be realized, and will affect different countries differently, the conclusion of the Round represents a major step towards the strengthening of the multilateral trading system, and will lead to higher growth of world trade and output.

IV

International resource transfers and financial development

The most significant international financial development in 1993 was the rapid escalation in the value of international transactions in equities, bonds and other securities. Economies that can participate in this burgeoning market now tap portfolio finance for substantial net capital inflows. Economies in which private corporations or government have limited access to private channels of international financing continue to rely mainly on official flows, which have grown slowly in aggregate, particularly concessional loans and grants. Policy makers are facing how to mobilize appropriate resources adequately for the latter countries until they, too, are seen to be sufficiently creditworthy by private lenders and as promising locations by direct investors.

TRANSFER OF RESOURCES TO DEVELOPING COUNTRIES

Since 1991, the developed market economies have transferred financial resources on a net basis each year to the rest of the world. In 1993, the net transfer doubled, despite the greater absorption of resources by the economy of the United States, whose economic recovery stimulated increases in imports that exceeded the growth of exports, the net transfer financing the difference.

As measured from balance-of-payments statistics, the industrialized countries transferred $114 billion in 1993, although owing to severe data inconsistencies this greatly overstates the actual transfer. Aggregating the data of the developing countries, the net transfer received by them in 1993 was estimated to have reached $54 billion, a level not seen since the years before the developing country debt crisis erupted in the early 1980s. There was also a small net transfer to the transition economies of eastern Europe, but it appears that there was a substantial net transfer out of Russia, owing in particular to a large movement of Russian funds into foreign currency in the light of the unstable economic and political conditions there during the year.

The large net transfer to the developing countries in 1993 was concentrated in Latin America and Asia, especially Western Asia and China. It was the third year of large net resource flows to developing countries. In the first year, 1991, major oil-exporting countries of West Asia drew down their foreign assets and borrowed heavily for post-war reconstruction. Large-scale net transfers to Latin America began in 1992 as the inflows of private foreign funds there began to be translated into increased imports. China began to draw net foreign transfers only in 1993, as in the preceding three years its export success had run ahead of its import increases and it had a surplus on a cashflow basis. In marked contrast, Africa has not shared in the new net transfer, although a transfer of between $6 billion and $10 billion a year continues to the sub-Saharan region, excluding Nigeria and South Africa.

Financial inflows to the developing countries in recent years have, in fact, greatly exceeded the net transfers measured in terms of expenditures on imports relative to export earnings. Developing country Governments thus ended up raising their foreign reserves beyond what was needed to meet the rule of thumb for reserve adequacy of three-months' coverage of the cost of imports and other current expenditures. That is, despite substantial growth in imports, a sample of 93 capital-importing developing countries ended 1993 with four months of reserve cover. In Africa, in contrast, the reserve cover was only 2.5 months.

THE REMAINS OF THE DEBT CRISIS

The developing countries arranged $71 billion in borrowing from international capital markets in 1993, more than $15 billion above the level in 1981, before the debt crisis began. Almost 70 per cent of these arrangements were bonds, a form of lending that was once open only to a few countries and in limited amounts. The world's financial markets have thus taken with equanimity the fact that the developing country debt is now over $1.6 trillion. But the $305 billion owed by Africa is seen to exceed its debt-carrying capacity. Indeed, while the total of arrears on principal and interest payments on long-term debt has fallen for the capital-importing developing countries as a whole, both types of arrears rose last year in Africa.

There is a broad perception that the Latin American debt situation, in particular, is close to solution, one reason being that the largest renegotiation of commercial bank debt, that of Brazil, was concluded in 1994. There has been some net reduction in debt and debt servicing owing to agreements such as Brazil's and the buy-backs of commercial bank debt arranged by other countries. Debt indicators for Latin America, while much improved, nevertheless show a continuing reason for cautious assessments.

Debts owed to governmental creditors, which have been mainly treated under the Paris Club, have not been reduced for most countries and only limited debt forgiveness has been made available for even the poorest countries undergoing rigorous adjustment programmes. Indeed, there is a widely held view among official creditors, albeit not a consensus, that the best terms being accorded are inadequate to pull the heavily indebted low-income countries out from under their debt overhang. Proposals for joint creditor action for deeper debt relief continue to be supported by several creditor countries while unilateral acts of debt forgiveness also continue to be taken.

NEW DEVELOPMENTS IN FINANCE

The standard function of international cooperation in finance for developing countries is not in the realm of debt relief but the direct provision of resources for activities that the international private sector does not undertake. The extent of this role, however, is being re-examined, including that of multilateral and bilateral assistance programmes. But while multilateral resource commitments fell in 1993, arrangements were made then and in early 1994 to replenish and expand various multilateral facilities. Other proposals that would raise resources of developing and transition economies are still pending, such as a new issuance of special drawing rights (SDRs) by the International Monetary Fund (IMF) and special arrangements to provide SDRs to countries that never received any. All in all, the tasks that require international financial assistance continue to grow.

At the same time that some Governments have been reducing their foreign assistance—even closing field offices—private institutions and individuals have been increasing their stake in developing countries, in particular in 1993 as regards holdings of developing country equity shares. An estimated $52 billion of developing country stocks were purchased by foreigners last year, more than double the 1992 level, a culmination of profound changes over several years in the financial structures of both the developed and developing countries. Governments of many developing countries have liberalized foreign access to their equity markets, usually in a controlled and phased manner, as in the case of the Republic of Korea. Privatization has been another major stimulus to stock market activity.

Policy makers have found, more generally, that it is increasingly difficult—and less and less desirable—to maintain walls between domestic and international financial markets. They have thus paid increasing attention to developing the financial sector, emulating the wide and expanding variety of financial institutions and markets that exist internationally. Countries everywhere also seem to be reducing policy barriers to international flows and cutting back restrictions on foreign competition in providing financial services in domestic markets. Experiences of this sort began in several of the larger industrialized economies, but they are now a phenomenon as well of developing countries. They are also an issue in the transition economies, although the need in these latter countries is more the creation of a market-oriented financial system rather than the liberalization of a system that already exists.

Progress in financial sector reform in the developing countries has gone from wholesale attacks on highly fragmented systems that were tightly controlled by Governments to more nuanced approaches. There is also a greater appreciation of the informal sector which, in part, arose to fill gaps in the formal financial system. Yet another dimension of reform is the role of Government, which is now seen to allow for a wide range of possibilities ranging from a minimalist model to the direct provision or indirect channelling of some credits to meet public policy goals.

In the economies in transition, the first financial sector priority has been developing a new commercial banking system, which in the end has largely followed the German model of "universal" banks. Developments have come the furthest in eastern Europe and their experiences were viewed as instructive cases. Reforms began when State-owned commercial banks were carved out of the predecessor institutions, inheriting the loan portfolio and deposit base—indeed, the clients—that they already had. The new banks were thus pressured to continue operating as before. At the same time, an explosive increase in the number of enterprises generated an enormous demand for corporate accounts and payment services. Many small private banks arose to meet the demand but they, like the large ones, suffered from inadequate capital bases and also rapidly built up large stocks of loans in arrears.

Policy responses to these problems included preparation of the State-owned banks for privatization and establishing tougher standards that existing private banks would have to meet. The bad-debt problem has been addressed by adding to the government capital stake in the banks, by infusions of cash into firms to repay arrears and by schemes to remove the debts from the books of the banks. Governments also sought to blend foreign banks into the local financial system through direct investment, but foreign banks generally eschewed the areas where their contribution was most desperately sought.

V

Energy: past developments and emerging trends

World energy demand has been growing at an average annual rate of 2.5 per cent since 1970. Under one possible scenario, energy consumption worldwide is expected to grow 42 per cent between 1990 and 2010, or at an average annual rate of 1.8 per cent. About two thirds of the incremental energy demand is likely to occur in the developing countries, with their share rising from 27 per cent in 1990 to 37 per cent by the year 2010. If these rates materialize, an additional 72 million barrels of oil equivalent (boe/d) of new energy supplies would need to be developed by the year 2010.

THE FALL IN PRICES

In 1993, world oil supplies remained abundant despite the continuing decline in oil output from the former Soviet Union and the ongoing embargo on Iraqi oil. A sluggish demand for energy around the world, combined with overproduction by the Organization of the Petroleum Exporting Countries (OPEC) and a record high output in the North Sea, have glutted world oil markets and led to a drop in oil prices to the lowest level in five years. The return of Kuwait's oil production to its pre-invasion level has also contributed to the glut. In the last six months of 1993, oil prices fell by more than 25 per cent, from about $18 a barrel in June to $13 a barrel in December. Oil prices remained weak in early 1994 despite the surge in the demand for heating oil caused by the exceptionally cold weather in large parts of the northern hemisphere. Attempts to secure cooperation between OPEC and non-OPEC producers in cutting output to prop up prices failed.

World oil demand remained weak, declining by 100 thousand barrels a day from its 1992 level, owing largely to the sharp drop in consumption in the former Soviet Union and to the near stagnation in the industrialized countries. In the developing countries, growth in total oil consumption was relatively strong, especially in the rapidly growing economies of East and South-East Asia. Most remarkably, in 1993 total oil consumption in the developing countries of Asia reached that of western Europe and, if recent trends continue, it may surpass that of the United States by the end of this decade.

While the recent decline in oil prices had positive impacts on most oil-importing countries, it had large negative effects on most oil-exporting countries. For example, total OPEC oil revenues in 1993 are estimated at less than half the 1974 level in inflation-adjusted terms. Expressed in 1974 dollars, the average price of OPEC oil in 1993 was estimated at $6.6 a barrel, compared with $10.4 in 1974 and $20.4 in 1980. Owing to the large population increases over the past 20 years, on a per capita basis, 1993 real oil revenues of OPEC member countries are only one fourth of what they were 20 years ago and one sixth of what they were 13 years ago.

With the resumption of economic recovery in the industrialized countries, world demand for oil is expected to grow at a relatively more rapid rate in the next few years. However, growth in oil consumption in the developing countries is likely to be the driving force behind global demand trends. In eastern Europe and the former Soviet Union, demand will tend to revive as the pace of economic decline eases and some of these economies begin to grow.

World crude oil production also declined slightly in 1993. A decline of nearly 1 million barrels per day in the Russian Federation was offset by increases in OPEC and the North Sea. Production in the United States continued its downward trend, reaching its lowest level in more than three decades. Elsewhere, production increased moderately. Non-OPEC supply is expected to rise slightly over the next few years as production in the North Sea continues to grow and the rapid decline in the former Soviet Union subsides. Production growth in Norway, the United Kingdom and the non-OPEC developing countries will probably more than compensate for the decline in the United States and some other areas. Supply trends in the former Soviet Union are uncertain, but output is expected to drop even further before it begins to recover.

In view of the continuing decline of oil output in the Russian Federation and the United States, most of the world is growing increasingly dependent on OPEC for additional supplies. At present, OPEC produces 41 per cent of the world's output and possesses over three quarters of the world's proved reserves of one trillion barrels. Two-thirds of these reserves are in the Persian Gulf countries, which are expected to remain the most significant source of incremental supply in the future.

THE FUTURE OF THE OIL MARKET

As oil production capacity is being expanded in a number of OPEC and non-OPEC countries, the oil market may remain amply supplied for the next few years. The oil market will soften further once oil export from Iraq is resumed. The evolution of oil prices in the period ahead will, therefore, depend on the ability of OPEC to restrain output, as well as on the level of economic recovery in the industrialized countries, the continued growth of the developing countries and the volume of oil exports from the successor States of the former Soviet Union. It will also depend on the rate at which additional production capacities are being developed in the North Sea and other non-OPEC areas. Developments in the successor States of the former Soviet Union will remain a major factor in the oil market.

Over the medium term (until the year 2000), total world oil demand is expected to grow at 1.5 per cent per annum, reaching 74 mbd by the end of this decade. Most of the growth in oil consumption will be for transportation fuels. Developing countries currently account for 32 per cent of world oil demand, but they will account for about two thirds of the growth, with their share rising close to 40 per cent by the turn of the century. While oil demand is expected to grow in all developing countries, the biggest absolute increase will be in the countries of South and East Asia, notably China, India and the Republic of Korea. In the developed market economies, oil demand is expected to grow at less than 1 per cent per annum. The substitution of oil by other forms of energy will continue to be reinforced by market forces supplemented by regulatory measures and large excise taxes on oil products. Even without taxes, however, improved fuel efficiency, combined with nearly stagnant population growth, will gradually reduce the growth of the demand for oil. In eastern Europe and the former Soviet Union, oil consumption is expected to drop further as subsidies are removed and oil is used more efficiently. But oil demand is likely to increase in the second half of the 1990s as economic growth resumes and demand for transportation fuel grows.

VI

The global employment situation: present and near-term

Unemployment has become a major problem in many developed economies, developing economies and, most recently, in economies in transition from central planning to a market orientation. Policy makers in all three groups of countries have recognized the seriousness of the unemployment problem, but consistent and effective solutions have yet to be found. The present situation represents a shift from the optimism that prevailed earlier in the postwar period, when it was widely felt that appropriately applied macroeconomic policies, development strategies and resource allocation policies would be successful in achieving low unemployment and full, or near full, levels of employment in the long term.

In all three groups of economies, policies designed to stimulate employment have encountered constraints—high and rising inflation in the developed economies, inflation and external imbalances in the developing economies and the need to foster transition and promote market flexibility in the transitional economies. Unemployment, however, imposes significant costs—lost output for economies, reductions in living standards and possible psychological burdens for individuals and their families and social disruptions, including rising crime rates and intensified social and political tensions, in affected societies. Clearly, better policies need to be designed to attain higher levels of employment.

The employment situation in the developed economies is not uniform, reflecting differences in institutional arrangements regarding labour markets. Among the largest developed economies, Japan has the lowest, albeit rising, unemployment rates. In the United States, unemployment rates are higher than in Japan and lower than in western Europe; at the same time, the relatively weak social safety net and downward pressure on wages at the lower ends of the wage scale have contributed to distributional problems. In western Europe, unemployment rates have become high, while structural problems are increasingly cited as the cause of persistent long-term unemployment.

In all developed economies, the growth of employment has been as high in recent decades—despite lower economic growth rates—as in the earlier postwar period. The difference between the two periods is that labour supply growth has risen, largely due to increased labour force participation of women, and these economies have been unable to absorb this larger supply fully. A deterioration in the inflation-unemployment trade-off has constrained demand side policies, while institutional rigidities, reinforced by perverse incentives from some government policies, have restricted market flexibility. An increase in the pace of technological change and an expansion in international competition has made more industries and jobs subject to rapid change, and increased the severity of adjustment problems. In addition, unemployment itself has become a cause of further unemployment: those experiencing spells of unemployment find that the market treats them as less attractive for future positions, particularly in a period of rapid change. Developed economies, then, have experienced a rise in structural unemployment, and a tendency for some cyclical unemployment to become structural.

The diversity of experience regarding employment and unemployment in developing countries is even wider than observed among developed economies. In some rapidly growing newly industrializing economies, labour shortages have appeared. In most developing countries, however, high levels of structural unemployment persist. Measured unemployment rates have risen in the 1970s and 1980s; however, disguised unemployment, particularly in agricultural regions, and the growth of the informal economy within countries, indicate unemployment rates higher than those registered. In some developing economies, exogenous factors, such as armed conflicts, have had a dramatic impact on employment and income prospects.

As the economies in transition are undergoing a rapid transformation from central planning to a market system, it is not surprising that they are experiencing substantial disruption, including high levels of unemployment, with less skilled and younger workers becoming particularly vulnerable. However, these economies had a substantial amount of unemployment hidden by policies adopted under central planning, including having the State effectively act as an employer of last resort. Thus, in addition to the

problems that arise from undergoing a rapid and far-reaching transformation, many of these economies are also in need of absorbing substantial surplus labour as a result of an incomplete transition from primary production to manufacturing and services. A further complicating factor in transitional economies is the weakening of the substantial social safety net previously provided by state agencies or through regular employment. Thus, unemployment has been accompanied by a rise in poverty and inequality.

Clearly, policies that stimulate investment, with its ability to add both to demand and employment-generating productive capacity, could reduce unemployment in all three groups of countries. However, constraints on expansionary policies and the persistence of structural unemployment suggest the need for policies oriented towards specific labour-market barriers and rigidities. In addition, rapid technological change, while beneficial in the long run and stimulative of trade and investment, can disrupt employment patterns and foster protectionist policies. Policies need to be sensitive to trade-offs while imparting greater flexibility and transparency to labour-market institutions, especially in those economies where such institutions are underdeveloped.

VII

Economic and social implications of population dynamics

The theoretical underpinnings for much modern discussion on the economic and social consequences of population dynamics were given almost two centuries ago by the classical economists. Adam Smith thought that population responded to economic forces—its growth was encouraged by a shortage of labour, but also it slowed down when living standards improved. On the other hand, Thomas Malthus felt that there was a conflict between what he described as two powers—that of population, which would tend to grow geometrically, and that of food, which could only grow arithmetically. His model showed the need to check population growth. Actions at a national level can be affected by the model which is thought to reflect most accurately the population situation.

For a Malthusian-type trap to be a realistic model of how the world operates requires that something useful can be said about future population growth and also something useful about the development of other factors that can accommodate the future growth of population.

There is a considerable margin of error in long run population forecasts. Forecasts to the year 2150 differ considerably among the several variants largely because of the assumptions about women's fertility. Even forecasts to the year 2025 contain substantial margins of error, largely because of the unpredictability of fertility patterns. In recent years, for example, Sweden had exhibited a surprising rise in fertility, while temporary economic difficulties in the economies in transition resulted in a decline in fertility and a rise in morbidity. The full impact of the AIDS virus on population growth has also been difficult to forecast.

Developments in the 35-year period 1955 to 1990 give an idea of what can be expected in the 35-year period 1990 to 2025. The next 35 years should see the further extension to almost all countries of the demographic transition which has already taken place in the developed countries and in most developing countries. In the first stage of the transition, crude death rates fall as infant and child mortality rates fall and longevity increases. This tends to increase the rate of population growth. However, the desired size of family also falls, which tends to reduce fertility and therefore crude birth rates and the growth of population. In the end, the net effect is to slow down the rate of population growth.

In the 35-year period 1990 to 2025, in all regions of the world, the population is expected to grow by a smaller percentage than in the 35-year period 1955 to 1990. Projections of the future population size of different economic groupings, such as developed and developing countries, however, give no indication of how many people will be living in "poor" countries in the more distant future: the relative positions of countries can be expected to change considerably.

In the presently categorized developed countries and some developing countries, the slow-down in population growth will lead to a major increase in the proportion of the elderly (those over 65) in the population. As the share of the young population is not expected to fall by a compensating amount, the dependency ratio should rise. This will have implications for the type of new investments to be made, and also for government finances, as financial provision will have to be made for a growing elderly population. In the end, however, it is healthy economic growth that can assure the elderly of adequate retirement incomes.

There is also considerable flexibility in the size of the labour forces of those countries experiencing slow population growth. The rates of participation by women in the labour force varied considerably, and increases in their participation could help alleviate any labour shortages. In any event, the countries with slow growing populations had experienced increasing unemployment rates. There was, then, little reason to believe that demographic factors alone would lead to a rise in the demand for migrant labour in the richer countries.

Can the life-cycle hypothesis be applied at a global level, i.e., will countries with ageing populations tend to dissave and run current-account deficits? It appears that there are so many determinants of savings, by households, firms and Government, that there is no reason to expect one particular effect to dominate. In recent years, two countries with the most rapidly ageing populations, Ger-

many and Japan a substantial current account surpluses and were able to finance their domestic investment.

The trend to urbanization will continue. Urbanization has provided many advantages in the relative ease of the provision of services, but has brought some undesirable consequences such as congestion and urban pollution. There is, though, no clear correlation between the growth or size of urban conurbations and pollution. Much depends on the quality of city Governments.

Technology and productivity increases have proven decisive in allowing food and raw materials to be supplied to the growing world's population at prices that have been falling in real terms. There is little reason to believe that these trends would not continue. However, it is important that prices reflect the true scarcity of limited resources, such as fish or water, and also the costs of repairing the environmental damage that was incurred in the course of production.

In the next 35 years, it is not the number of people on the Earth, but rather their production and consumption patterns, that will determine the level of environmental degradation. This is especially the case as most of the world's present environmental degradation is caused by the developed countries, whose population is stagnant. Only over long-term scenarios, of over 100 years, is the growth in the size of the developing countries' population expected to become a significant factor in determining levels of global pollution. However, over such a long-term period, the levels of pollution will be largely determined by technological developments.

There is little reason to believe in a Malthusian-type trap. Just as it would have been very difficult to predict in 1955 what the world of 1990 would look like, the one certain forecast is that the next 35 years will be marked by considerable changes, in population sizes and structures, in the demand for goods and services and in the technologies used to produce goods. The changes in technology from the presently wasteful and polluting pattern to one fostering sustainable development will be one of the greatest changes.

Technical note

Alternative measures of gross world product and its distribution

Measures of the level and distribution of world economic activity and its change over time are among the most important indicators of economic performance. When summarizing the diverse array of goods and services produced in different countries, however, market exchange rates normally used to convert national currency estimates of production into a common currency do not provide sufficiently reliable and stable measures of the dollar value of output produced in these countries; moreover, they may understate output levels produced in low per capita income countries relative to those of higher income countries, with the result that the level of gross world product (GWP) is underestimated and its relative distribution among countries distorted.

A study made by the United Nations Statistical Division using four different types of conversion rates for 1970-1991 shows how the method used for conversion of national gross domestic products (GDP) into a common unit of account results in different estimates of GWP. Compared with exchange rate conversions, calculations using a common system of weights based on the purchasing power parity (PPP) methodology of the International Comparison Project yield a substantial increase in the estimated level of GWP and a significant change in its distribution among countries, with the share of developing countries in the world total increasing significantly.

The study also points out that the individual country distribution of world economic activity and its change over time are affected by the particular method used for conversion. Seen in terms of the size distribution of GWP, disparities in average levels of product per capita among countries are shown to be smaller when expressed in PPP equivalents, but the entire distribution of GWP became more unequal over time whether measured at market exchange rates or at PPP. Measured using other conversion methods, the distribution of GWP was more stable and did not exhibit the unambiguous deterioration found with exchange rate and PPP methods.

Annex

Statistical tables

The statistical annex provides a systematic and comprehensive set of data that underlies much of the analysis in the *World Economic and Social Survey*. The data are presented, whenever possible, with uniform time series and country coverage for easy comparability. The annex is divided into four sections, covering world output and macroeconomic indicators, international trade, international finance and financial markets, and the international oil market.

Part I is related primarily to chapters I and II of the *Survey* and provides data on growth of GDP and its various components as well as data on inflation, unemployment and domestic financial indicators. Part II relates to chapter III and contains summary tables on the direction and commodity composition of trade among groups of countries and on the annual percentage changes in the value, volume and price of exports and imports. Part III, on international finance and financial markets, comprises an extensive presentation of world balance of payments on current account for major country groupings and countries as well as detailed data on the net transfer of financial resources of developed and developing countries, as discussed in chapter IV. Data pertaining to official and private sources of finance for development, and statistics on the external debt of developing countries and the countries in transition are also included in this section. Part IV focuses on the international oil market and contains information on world oil demand and oil production and the exports and production of oil by OPEC member countries, the focus of chapter V of the *Survey*.